

TESTIMONY OF DENNIS MAZE

ON BEHALF OF THE ALABAMA FARMERS FEDERATION

SUBCOMMITTEE ON CONSERVATION, CREDIT, RURAL DEVELOPMENT, AND RESEARCH

HOUSE AGRICULTURE COMMITTEE

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Mr. Chairman, Ranking Member Hilliard, and members of the Subcommittee, I thank you for allowing me the opportunity to testify before you today.

My name is Dennis Maze, and I am a third-generation poultry farmer from Blount County, Alabama. My farm, Maze Farms, consists of 200 acres, 81 Angus cattle, and eight broiler houses with a capacity of 170,000 birds per batch.

Agricultural producers such as myself continue to suffer from energy costs that are far higher than usual or that could be reasonably anticipated. Substantial increases in gasoline, propane, natural gas, heating oil, and electricity have put farmers in a tight squeeze economically that has left them with little or no recourse. Although there have been many factors that have been cited for these increases (and this subcommittee has explored some of those factors last week), there is no question that heavy users of propane and natural gas such as poultry producers have been especially hard-hit.

Many producers such as myself do not have enough current income to cover the very high energy costs and other production expenses. For example, in 1999 my farm used 70,060 gallons of propane, and spent \$39,112. In the year 2000, my farm had 50,490 gallons of propane consumption, and spent \$40,874. In 2001 from January 1-March 28, my farm used 29,244 gallons of propane and spent \$31,165. On January 1, 1999, my price per gallon of propane was \$0.43. By January 21, 2001 my price per gallon had increased to \$1.41 per gallon. At this rate I can't continue to raise chickens and still be profitable.

My farm's first batch of chickens in January 8, 2001, grossed \$48,417. However, my total liabilities including debt service, gas, insurance, utilities, and labor led to a net loss of \$815. Since my houses have 5.5 flocks per year, this resulted in a loss for one-fifth of my income for the year before I have even paid my farm anything.

In addition, producers in the poultry industry have historically had very narrow profit margins, and are responsible for paying their own utility bills. Poultry producers have no way to pass their increased cost of production to consumers since the price they receive for their product is set when they sign the contract, regardless of how much it costs to raise their chickens. For example, many farmers in the Clay County area paid over \$1.67 per gallon for propane which meant they did not make enough money for their winter flocks to pay their gas bill. At that price, even the most profitable growers would have paid 67 percent of their gross check and many at the bottom of the pay scale would have paid 98 percent of their gross check at that price.

Further, since propane typically accounts for over 40 percent of the total variable cost for broiler producers, the huge increase in natural gas and propane prices have left farmers with no profit. In many cases, their entire budget for energy costs were spent in one month. According the Auburn University estimates, with propane prices increasing from \$0.70-\$0.80 cents per gallon last summer to levels approaching \$1.35 per gallon, propane is now accounting for 55 percent of those expenses.

Although farmers in my area have joined together in cooperatives and purchased propane early, the cost to the growers have still increased from the companies. Some county extension estimates for cooperatives in Franklin County estimate that booking propane gas in the summer achieved savings of \$200,000 in 1999 for 56 farmers. Some costs associated with transportation of that gas increased for producers significantly. For example, the transportation costs to our cooperative for using a pipeline from Bellview, Texas increased from \$.03 cents to \$0.57 cents per gallon during the months of heaviest usage last winter. However, the wholesale price for propane did not increase proportionately.

Poultry companies are also experiencing economic difficulty which has compounded the problem of higher energy costs coupled with lower production mandated by poultry companies. For example, one grower in Calhoun County has had their paycheck cut by almost 20 percent in the last 2 years because poultry companies have ordered growers to reduce the number of chickens in each house, and increase the amount of time the houses are idle between flocks. In addition, many companies are also lowering the weight in which they purchase chickens from growers resulting in lower revenue and less pounds of production.

Banks also typically require 55 percent of a producer's gross check to service the loan on the poultry houses, and with the double or triple energy costs, there is no profit left for the producer. While growers do appreciate the fuel allowance that some companies have passed along to the growers, even profitable growers are experiencing extreme financial difficulty.

Alabama's poultry industry is extremely important to our economy. We are the third largest broiler producer in the country, and the poultry industry accounts for approximately 78,000 jobs and \$266.7 million in exports alone in our state. In the United States, it is estimated there are 70,000 broiler houses on 25,000 farms. According to the National Chicken Council, 75% of these farms are responsible for all or part of the energy costs used during the growout period. Approximately 900 gallons of propane are used per broiler flock with an average house producing 5.5 flocks per year.

The increased energy costs have also impacted other users such as operators of greenhouses and nursery farms. The Alabama Farmers Federation has conducted an informal survey of horticulture and nursery farms in Alabama and their input costs for gas and electricity. The replies to this survey are included in my testimony.

Although poultry producers have not generally sought government assistance in the past, the current energy situation and the lack of a comprehensive national energy policy point to the need for some financial assistance in order to prevent this situation from becoming far worse. The Alabama Farmers Federation strongly supports efforts such as HR 396 introduced by Representative Pickering that would allow the Secretary of Agriculture to provide emergency financial assistance to crop producers, livestock and poultry producers, and greenhouse operators. I also wish to particularly thank Mr. Hilliard, the Ranking Member of this Subcommittee, for his cosponsorship. The poultry industry is also very supportive of the bill introduced by Senator Sessions and Senator Cochran, S 586, which would provide emergency assistance for agriculture end users.

All indications are that consumers and users of energy are headed for another hard summer of high usage and high costs. Another severe summer such as the drought Alabama suffered last year, and many more growers will go bankrupt regardless of how profitable they normally are. Only a comprehensive energy policy that includes agriculture especially end users will ensure that producers that use propane, natural gas, and electricity will remain financially sound. In the meantime, Congress can provide short-term financial assistance such as that proposed by Senator Sessions and Congressman Pickering until that comprehensive policy is achieved.

In conclusion, I would like to state that without some financial assistance even producers that are profitable will soon use any equity they have remaining and only exacerbate the current financial

crisis facing American agriculture. Since 75% of all agriculture exports in our state are from poultry, this would further harm our infrastructure and decrease producer income.

Further, I would encourage this committee to continue to examine other ways to increase the supply of energy such as the use of renewable fuels. As this Subcommittee pointed out earlier, U.S. refineries are only meeting 85% of domestic demand, and the U.S. continues to increase their reliance on oil imports. Efforts should be made to increase production and research into renewable fuels such as ethanol and bio-diesel in order to play a significant role in the nation's comprehensive energy strategy with assessed tax rates that promote market acceptance